

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EA-10 ISO-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 AGRE-00
CEA-01 COME-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01
TRSE-00 SP-02 SOE-02 OMB-01 DOE-11 IO-13 /114 W
-----109216 142302Z /13

O R 142210Z MAR 78

FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC IMMEDIATE 9880
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY LIMA
AMEMBASSY KUALA LUMPUR
AMEMBASSY QUITO
AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 1 OF 2 LA PAZ 2134

EO 11652: GDS

TAGS: ETRD, EAID, PPDC, BL

SUBJECT: MEETING WITH PRESIDENT BANZER ON GSA TIN SALES,
ECONOMIC ASSISTANCE AND FMS CREDITS

REF: STATE 5880, STATE 63554, STATE 56637

1. I MET WITH PRESIDENT BANZER MARCH 13 TO REVIEW THE RATIONALE
FOR THE ADMINISTRATION'S SUPPORT OF LEGISLATION AUTHORIZING
GSA TIN SALES, AND TO EMPHASIZE SOME POINTS IN PRESIDENT CARTER'S
LETTER OF MARCH 6. (EXPLANATIONS OF WHY BANZER COULD NOT SEE
ME LATE LAST WEEK VARY, FROM REPORTED IRE OVER GSA SALES, WHICH
THE GOB LEARNED OF FROM COMMERCIAL SOURCES ON WEDNESDAY, TO
MORE MUNDANE FACTORS OF TRAVEL ON THURSDAY AND AN ALL-DAY
CABINET MEETING ON FRIDAY.)

2. DESPITE A GREAT DEAL OF VENOM IN THE PRESS, INCLUDING SOME FROM
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GOB REPRESENTATIVES, BANZER DISPLAYED NO ANGER IN OUR MEETING.
HIS ATTITUDE RATHER WAS THAT OF AN OFFENDED FRIEND WHO WAS
VERY CONCERNED ABOUT THE US'S ADDING TO HIS CONSIDERABLE
DIFFICULTIES ON THE WAY TO JULY ELECTIONS. HE SAID OTHERS
MIGHT SPECULATE ABOUT THE LONGER-TERM BENEFITS OF GSA SALES
BUT FOR BOLIVIA THE LONG TERM WAS THE NEXT FOUR MONTHS TO
ELECTIONS. DURING THIS TIME BOLIVIA WAS LIVING ON A FINANCIAL

RAZOR'S EDGE AND TRYING TO CONTAIN EXTREMIST FORCES THREATENING THE PROCESS OF DEMOCRATIZATION. EVEN AT THE HIGH TIN PRICES OF RECENT MONTHS, BANZER CONTINUED, HE FACED OVER \$70 MILLION WORTH OF ESSENTIAL EXPENDITURES HE COULD NOT FINANCE. EACH TWO-CENT DROP IN THE TIN PRICE COST HIM ANOTHER MILLION DOLLARS AND THE TIN PRICE HAD DROPPED 50 CENTS SINCE ANNOUNCEMENT OF PRESIDENT CARTER'S SUPPORT FOR THE DISPOSAL BILL. IF THIS CONTINUED, THE ENTIRE BENEFIT OF US AID WOULD BE NEUTRALIZED.

3. POLITICALLY BANZER SAID IT BECOMES HARDER TO CITE THE BENEFITS OF DEMOCRATIZATION IN TERMS OF INTERNATIONAL SUPPORT FOR BOLIVIA, IF IN THE END THE US ACTS TO INCREASE ITS OWN WELFARE AT BOLIVIA'S EXPENSE. JUAN LECHIN WAS ALREADY CITING US "AGGRESSION AGAINST THE BOLIVIAN MINER" AS EVIDENCE THAT COOPERATION WITH THE US DID NOT PAY. BANZER SAID HIS MAIN POLITICAL PROBLEM WAS TO AVOID GALVANIZATION OF THE EXTREME LEFT AND THEIR CONTROL OVER THE MINERS. HE FEARED THAT THE US HAD HURT HIM IN THIS. HE CLAIMED THAT MINERS WERE NOW ENGAGED IN A SYSTEMATIC SABOTAGE OF MINING MACHINERY AND THAT PRODUCTION LOSSES WERE MOUNTING. IF THESE PRODUCTION LOSSES WERE COMPOUNDED BY LOWER PRICES BANZER DID NOT KNOW HOW HE WOULD MAKE ENDS MEET.

4. BANZER SAID HE WAS ENCOURAGED THAT PRESIDENT CARTER HAD APPARENTLY MANEUVERED POLITICALLY TO GIVE HIMSELF MAXIMUM CONFIDENTIAL

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FLEXIBILITY TO IMPLEMENT HIS DISPOSAL AUTHORITY SO AS TO PROTECT PRODUCER INTERESTS. IT WAS GOOD TO KNOW THAT BOLIVIA IN 1978 WAS RECOGNIZED AS A SPECIAL CASE AND THAT THE PRESIDENT WAS WILLING TO TAKE THIS INTO ACCOUNT IN THE ACTUAL PROPOSAL WE WOULD DEVELOP.

5. IN MY EXPLANATION OF OUR POLICY (WHICH PRECEDED BANZER'S REACTION ABOVE) I STARTED FROM THE WEIDELY RECOGNIZED WORLD DEFICIT OF TIN, LOW STOCKS, POSSIBLE DISORDERLY SUPPLY CONDITIONS IN THE US TIN MARKET, AND THE ECONOMIC AND POLITICAL IMPOSSIBILITY OF THE PRESIDENT'S SITTING ON ALL OUR TIN STOCKS IN THE FACE OF THESE CIRCUMSTANCES. I SAID OUR OBJECTIVE WAS NOT A SIGNIFICANT DROP IN PRICE BUT ASSURANCE OF ORDERLY SUPPLY FOR OUR TIN USERS. MY OWN JUDGMENT WAS THAT THE LONG-TERM PRICE TREND FOR TIN WAS STILL UP AND A GSA PROGRAM OF THE SIZE CONTEMPLATED WOULD NOT CHANGE THIS. I NOTED THAT PRESIDENT CARTER'S LETTER MADE CLEAR THAT HE UNDERSTOOD BOLIVIA'S PARTICULAR SITUATION AND BECAUSE OF THIS HAD INSISTED ON SAFEGUARDS TO PROTECT BOLIVIA. IN PARTICULAR, I STRESSED THAT THE PRESIDENT HAD GONE TO SOME LENGTHS TO ASSURE HIMSELF ADEQUATE FLEXIBILITY TO ELABORATE AN ACTUAL DISPOSAL SCHEDULE, IN LIGHT OF CONSULTATIONS WITH

PRODUCERS, WHICH WULD PREVENT MARKET DISRUPTION. I SAID I ENCOUUNTERED DURING MY RECENT DISCUSSIONS IN WASHINGTON CONSIDERABLE INTEREST IN THE CONCEPT OF AN ANNOUNCED, STEADY MONTHLY DISPOSAL RATE FOR A MULTIYEAR PERIOD, THUS MINIMIZING THE DISORDERLY IMPACT ON TIN PRICES OF UNCERTAINTY AS TO THE LEVEL AND TIMING OF GSA INTERVENTION IN THE MARKET. BUT I DOUBTED THE PRESIDENT WOULD WANT A COMPLETELY FIXED SCHEDULE WHICH WOULD NOT PERMIT CHANGE IN LIGHT OF MARKET CONDITIONS.

6. BANZER SAID HE WOULD LIKE TO KEEP BOLIVIA'S DEEP CONCERN IN BUSINESS-LIKE CHANNELS AND WANTED TO CALM DOWN THE STRIDENT TONE OF BOLIVIAN PUBLIC DISCUSSION OF GSA SALES. HE ASKED WHETHER I COULD HELP BY GIVING A PRESS CONFERENCE (AS OPPOSED

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TO THE BACKGROUNDER THE EMBASSY DID FOR WRITERS LAST THURSDAY) STRESSING THAT BOLIVIA'S NEEDS HAD BEEN NOTED AND AN EFFORT MADE T LEAVE THE PRESIDENT FLEXIBILITY TO REFLECT THEM. (I DID.)

7. BANZER ASKED WHAT REACTION THERE WAS TO HIS REQUEST FOR ECONOMIC ASSISTANCE TO AID BOLIVIA'S TRANSITION TO DEMOCRACY. I TOLD BANZER THAT I HAD ENCOUNTERED IN WASHINGTON A GREAT DEAL OF INTEREST IN BOLIVIA'S EFFORTS TO RESTORE CONSTITUTIONAL ROLE AND CONSIDERABLE UNDERSTANDING FOR THE PROBLEMS INVOLVED. WHAT WE COULD CONSIDER TO HELP WAS, FIRST OF ALL, A LARGE PL-480 TITLE III PROGRAM, WHICH WE WERE RAPIDLY ADVANCING

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THROUGH US AGENCY CONSIDERATION. AS HE KNEW, THIS WAS A LONG-TERM RURAL DEVELOPMENT PROGRAM, BUT IT COULD BE INITIATED, HOPEFULLY, IN JULY, AND FRONT-LOADED IN TERMS OF SOME OF THE BALANCE OF PAYMENTS EFFECTS TO REFLECT BOLIVIA'S NEEDS IN THE DIFFICULT FIRST YEAR OF THE ELECTED GOVERNMENT. WE HAD ALSO INCREASED THE SIZE OF TWO FY78 AID PROJECTS AND WERE CONSIDERING ADVANCING AN \$8.5 MILLION PROJECT FROM THE NEXT FISCAL YEAR TO THE CURRENT ONE. I HAD TALKED TO EXIM BANK AND FOUND CONSIDERABLE INTEREST IN GOOD BOLIVIAN PROJECTS IN THE MINING AND ENERGY SECTORS. WE ALSO HOPED TO REINITIATE OPIC PROGRAMS IN BOLIVIA TO HELP PRIVATE SECTOR CONFIDENCE. THESE MOVES WOULD OBVIOUSLY HELP BOLIVIA'S ECONOMIC POSITION IN COMING YEARS. WE COULD NOT HELP WITH BANZER'S IMMEDIATE LIQUIDITY PROBLEM. (IN CONTRAST TO OUR PREVIOUS CONVERSATION) BANZER ASKED ME WHAT I THOUGHT ABOUT HIS BORROWING COMMERCIALLY AGAINST THE PROSPECTS OF MORE CONFIDENTIAL

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LONGER-TERM ASSISTANCE LATER. I SAID IT LOOKED TO ME AS IF THAT WAS WHAT HE HAD TO DO, AS WELL AS TO PLAN FOR A MAJOR IMF STAND-BY AFTER ELECTIONS.

8. BANZER RAISED THE SUBJECT OF OUR FMS CREDIT OFFER. HE SAID THE GOB DEFINITELY PLANNED TO USE THE \$14 MILLION OFFERED. HE ASKED ME TO SEE DEFENSE MINISTER BRETEL TO GET THIS MOVING AS SOON AS POSSIBLE. BANZER SAID HE PLANNED TO USE \$6 MILLION FOR EQUIPMENT FOR THE MILITARY HOSPITAL AND THE REST FOR COMMUNICATIONS EQUIPMENT AND PERHAPS ARTILLERY. HE ASKED WHETHER THE US, GIVEN BOLIVIA'S SITUATION, COULD PROVIDE THE MAXIMUM ALLOWABLE MATURITY FOR THESE ITEMS (HE SAID 15 YEARS; I TOLD HIM THE LAW SAYS 12). I TOLD BANZER I WOULD BE WILLING TO SEEK THE MAXIMUM MATURITY FOR HOSPITAL EQUIPMENT AND COMMUNICATIONS GEAR, BUT NOT ARTILLERY. OUR POLICY WAS TO SHORTEN TERMS ON LETHAL ITEMS. HE AGAIN URGED ME TO GET THIS SETTLED WITH BRETEL ASAP.

9. COMMENT: AS INSTRUCTED, I HAVE EMPHASIZED TO BANZER (AND PUBLICLY) THAT THE PRESIDENT WENT TO SOME LENGTH TO SUPPORT CONGRESSIONAL ACTION ON TIN SALES WHICH WOULD GIVE HIM CONSIDERABLE FLEXIBILITY TO DEVELOP AN ACTUAL SCHEDULE OF

SALES (BEGINNING DATE, MONTHLY LEVEL, PERIOD OF PROGRAM)
WHICH WILL AVOID MARKET DISRUPTION. IN FACT, WE HAVE AN
INTERNATIONAL OBLIGATION TO DEVELOP SUCH A PROGRAM IN LIGHT
OF CONSULTATIONS WITH PRODUCERS. INDEED, IT IS THIS POINT
ONLY OF OUR POSITION THAT HAS SO FAR PREVENTED UNCLE SAM FROM
BEING HANGED IN EFFIGY IN BOLIVIA. I AM CONCERNED, HOWEVER,
THAT IN ONE CRITICAL RESPECT THE UDALL-DECONCINI BILL WE ARE
SUPPORTING, UNNECESSARILY DENIES THE PRESIDENT THE FLEXIBILITY
WE MAY NEED TO MEET OUR COMMITMENT TO PRODUCERS. WHY DO
WE HAVE TO LINK FINANCIALLY TIN SALES AND COPPER PURCHASES?
AND, MORE PARTICULARLY, WHY DO WE, IN SECTION 2 (B)(1) OF
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THE BILL, HAVE TO PRESCRIBE THAT NO COPPER CAN BE BOUGHT UNTIL
5,000 TONS OF TIN HAVE BEEN SOLD IN FY78 AND 10,000 TONS
IN FY79 SO THAT THE COPPER INDUSTRIES' INTEREST IN
ACCELERATING TIN SALES TO BUY COPPER IS REDOUBLED. THE
PACE OF TIN SALES SHOULD BE DETERMINED BY THE NEEDS OF THE TIN
MARKET, NOT OUR NEED TO BUY COPPER. UNLESS WE CAN DROP
SECTION 2(B)(1) WHICH UNNECESSARILY PUTS THE
TREASURY RECEIPTS AT THE FRONT END OF THE TIN SALES PROGRAM,
TIN PRODUCERS ARE NOT GOING TO BELIEVE THAT THE ADMINISTRATION
REALLY TRIED VERY HARD TO GET THE FLEXIBILITY WE NEED TO
DEVELOP A PROGRAM, IN LIGHT OF CONSULTATIONS WITH TIN PRODUCERS,
DIRECTED TO THE TIN MARKET. WITH SECTION 2(B)(1) THE BILL
LOOKS MORE LIKE A BILL TO MEET FIRST THE NEEDS OF THE US
TREASURY AND SECOND, THE NEEDS OF THE US COPPER INDUSTRY,
WITH TIN SALES BEING THE LEGAL TENDER THE AMOUNT OF WHICH
IS DETERMINED BY THESE TWO OBJECTIVES.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESIDENT, TIN, SALES, ECONOMIC ASSISTANCE, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 mar 1978
Decapton Date: 01 jan 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LAPAZ02134
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780114-0036
Format: TEL
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780372/aaaacirv.tel
Line Count: 258
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 46ecf5c7-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 5880, 78 STATE 63554, 78 STATE 56637
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3342775
Secure: OPEN
Status: NATIVE
Subject: MEETING WITH PRESIDENT BANZER ON GSA TIN SALES, ECONOMIC ASSISTANCE AND FMS CREDITS
TAGS: ETRD, EAID, PPDC, BL, US, (BANZER SUAREZ, HUGO)
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/46ecf5c7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014